

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1195-06
Bill No.: Perfected HCS for HB 346 & 174
Subject: Education, Elementary and Secondary Retirement - Schools Retirement Systems and Benefits - General Teachers
Type: Original
Date: April 2, 2003

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Total Estimated Net Effect on General Revenue Fund	\$0	\$0	\$0

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Total Estimated Net Effect on Other State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 8 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Local Government	\$0	(\$455,659)	(\$455,659)

***Does not reflect an increase in unfunded accrued actuarial liability of \$8,612,000 to Public School Retirement System and \$3,315,000 to the Non-Teacher Retirement System.**

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Elementary and Secondary Education (DESE)** state there may be a minimal administrative impact; however, the impact is not expected to be significant. It assumed the impact would be less than \$100,000 per year

Oversight assumes a minimal administrative impact cost could be absorbed by the Department of Elementary and Secondary Education.

Officials from the **Public School Retirement System (PSRS)** state this proposal will change the establishment and implementation of the contribution rate, modify the current method of service credit purchases, create a partial lump sum option, extend the 25 and out option to 2008, enable retirees to return to work for up to 2 years in a school district that has established a critical need to hire retirees, and changes the health insurance option timeframe for employees who leave a district. All of these provisions effect both the Public School and Non-teacher School Employee Retirement Systems of MO.

ASSUMPTION (continued)

The cost associated with the proposal pertains to the 25 and out option for both systems.

To extend 25 and out in PSRS, the actuarial accrued liability will increase \$8.61 million and cause the contribution rate to increase to 22.24% from a base contribution rate needed of 22.22% to amortize the UAAL over a 30 year period.

NTRS will see a 3.31% million increase of the AAL while the contribution rate of 10.80% needed to amortize over a 30 year period will increase to 10.83%.

The **Joint Committee on Public Employee Retirement** indicates that this legislation does represent a “substantial proposed change” in future plan benefits as defined in Section 105.660(5). Therefore, an actuarial cost statement as defined in Section 105.665 must be provided prior to final action on this legislation by either legislative body or committee thereof.

Pursuant to Section 105.670, this actuarial cost statement must be filed with 1) the Chief Clerk of the Missouri House of Representatives, 2) the Secretary of the Senate and 3) the Joint Committee on Public Employee Retirement as public information for at least five (5) legislative days before final passage of the bill.

An actuarial cost statement for this legislation has been filed with the Joint Committee on Public Employee Retirement.

In regard to the Return to Work provisions (Section 169.596), it should be noted that the school district must pay the employer contribution. This change eliminates the fiscal impact to the retirement systems in relation to this part of the proposal.

Retired Teachers & Administrators

The **Joint Committee on Public Employee Retirement (JCPER)** has reviewed this proposal and has determined an actuarial study is not needed under the provisions of section 105.660, subdivision (5).

Officials with the **Office of Secretary of State** assume this proposal will allow retired teachers to teach for up to four years in an urban school district without losing their retirement benefits. The Department of Elementary and Secondary Education shall adopt rules to implement this legislation. These rules will be published in the Missouri Register and the Code of State Regulations. Based on experience with other divisions, the rules, regulations and forms issued by the Department of Elementary and Secondary Education could require as many as 4 pages in

ASSUMPTION (continued)

the Code of State Regulations. For any given rule, roughly half again as many pages are published in the Missouri Register as in the Code because cost statements, fiscal notes and the like are not repeated in the Code. These costs are estimated. The estimated cost of a page in the Missouri Register is \$23. The estimated cost of a page in the Code of State Regulations is \$27. The actual cost could be more or less than the numbers given the impact of this legislation in future years is unknown and depends upon the frequency and length of rules filed, amended, rescinded or withdrawn. $[(4 \times \$27) + (6 \times \$23) = \$246]$

Oversight assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process. Any decisions to raise fees to defray costs would likely be made in subsequent fiscal years.

Officials with the **Public School Retirement System (PSR), Department of Elementary and Secondary Education (DESE), Kansas City Public School Retirement System (KCPSRS) and St. Louis Public School Retirement System** assume the proposal has no fiscal impact on their agency.

<u>FISCAL IMPACT - State Government</u>	FY 2004 (10 Mo.)	FY 2005	FY 2006
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>FISCAL IMPACT - Local Government</u>	FY 2004 (10 Mo.)	FY 2005	FY 2006
<u>Costs - School Districts</u>			
Teacher and Employee Contributions	<u>\$0</u>	<u>(\$455,659)</u>	<u>(\$455,659)</u>

***Does not reflect an increase in unfunded accrued actuarial liability of \$8,612,000 to Public School Retirement System and 3,315,000 to the Non-Teacher Retirement System.**

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

DESCRIPTION

This substitute revises various provisions of the Missouri Public School Retirement System.

RETIRED TEACHERS AND ADMINISTRATORS

Currently, retired teachers in the St. Louis City school district may return to teaching for up to four years without loss of retirement benefits. This substitute permits retired teachers and administrators in the Kansas City school district to be employed by the district for up to four years without loss of benefits.

PUBLIC SCHOOL RETIREMENT SYSTEM

In school districts with 300,000 residents or less, the substitute:

- (1) Requires the Board of Trustees to determine and certify to the employers the level rate of contribution and specifies the time period the rate should be established;
- (2) Requires the level rate of contribution for a fiscal year not to exceed the rate of contribution for the prior fiscal year by more than 0.5%;
- (3) Requires the board to determine and certify the level rate of contribution for a fiscal year based on an actuarial valuation. The valuation will be based on an entry age normal actuarial cost method and an asset valuation method, with the unfunded actuarial liability amortized over a period not to exceed 30 years;
- (4) Requires the board to have an actuary conduct an actuarial valuation of the system and additional valuations at least once every 10 years;
- (5) Prohibits legislation from being enacted after July 1, 2003, which provides benefit increases to members and retirees unless there is a matching contribution rate which equals 10.5% as determined by an actuarial valuation. Legislation can be enacted after July 1, 2003, that provides an extension of time for a member to make an election for a retirement allowance;
- (6) Allows members who have accrued at least one year of membership service credit and who have covered employment with the system following the credit being purchased to purchase membership service credit or equivalent service credit under certain terms and conditions. Payment for the membership service credit is required prior to termination of membership with the retirement system;

DESCRIPTION (continued)

- (7) Allows a member who has served in the armed forces and who is no longer in service to purchase membership service credit equivalent to the period of active duty service;
- (8) Extends the period of a certain retirement allowance computation provision (Option 1) from July 1, 2003, to July 1, 2008; and
- (9) Allows a member eligible for retirement who has not previously received a retirement allowance to elect to receive a partial lump-sum distribution. This election is based on years of creditable service and age and is subject to certain terms and conditions.

GENERAL TEACHER RETIREMENT PROVISIONS

The substitute:

- (1) Allows members of specified public school retirement systems who have previous credit in another public school retirement system to purchase equivalent service credit in their present retirement system;
- (2) Allows members of specified retirement systems who are within five years of retirement to purchase additional creditable service;
- (3) Revises the health insurance benefits provision by allowing employees one year from the date of last employment to qualify for the coverage; and
- (4) Contains a provision which allows any school district with a shortage of certificated teachers to employ retired certificated teachers for up to two years. The teachers would not lose retirement benefits.

NON-TEACHER SCHOOL RETIREMENT SYSTEM

The substitute:

- (1) Requires the Board of Trustees to determine and certify to the employers the level rate of contribution and specifies the time period the rate should be established;
- (2) Requires the level rate of contribution for a fiscal year not to exceed the rate of contribution for the prior fiscal year by more than 0.25%;

DESCRIPTION (continued)

(3) Requires the board to determine and certify the level rate of contribution for a fiscal year based on an actuarial valuation. The valuation will be based on an entry age normal actuarial cost method and an asset valuation method, with the unfunded actuarial liability amortized over a period not to exceed 30 years;

(4) Requires the board to have an actuary conduct an actuarial valuation of the system and additional valuations at least once every 10 years;

(5) Prohibits legislation from being enacted after July 1, 2003, which provides benefit increases to members and retirees unless there is a matching contribution rate which equals 5% as determined by an actuarial valuation. Legislation can be enacted after July 1, 2003, that provides an extension of time for a member to make an election for a retirement allowance;

(6) Requires a member who is reinstated with the retirement system to effect reinstatement by repaying to the system accumulated contributions which are withdrawn or refunded prior to termination with the retirement system;

(7) Allows members who have accrued at least one year of membership service credit and who have covered employment with the system following the credit being purchased to purchase membership service credit or equivalent service credit under certain terms and conditions;

(8) Allows a member who has served in the armed forces and who is no longer in service to purchase membership service credit equivalent to the period of active duty service; (9) Revises a retirement allowance computation provision; and

(10) Allows a member eligible for retirement who has not previously received a retirement allowance to elect to receive a partial lump-sum distribution based on an option plan. This election is based on years of creditable service and age and is subject to certain terms and conditions.

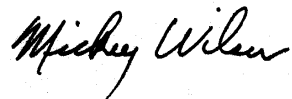
The substitute contains an emergency clause for certain sections.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

L.R. No. 1195-06
Bill No. Perfected HCS for HB 346 & 174
Page 8 of 8
April 2, 2003

SOURCES OF INFORMATION

Joint Committee on Public Employee Retirement
Department of Elementary and Secondary Education
Public School Retirement System
Kansas City Public School Retirement System
St. Louis Public School Retirement System
Office of the Secretary of State

A handwritten signature in black ink that reads "Mickey Wilson". The signature is written in a cursive, flowing style.

Mickey Wilson, CPA
Director
April 2, 2003